

Message Text

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PAGE 01 ROME 03527 031825Z

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: ENRG, IT

SUBJECT: ITALIAN PETROLEUM PRICES: JOCKEYING FOR POSITION

REF: (A) ROME 3446, (B) STATE 49148

1. SINCE MARCH 2 MEETING OF INTERMINISTERIAL PRICE COMMITTEE (CIP) FAILED TO PROMULGATE NEW PETROLEUM PRODUCT PRICE CEILINGS, JOCKEYING TO INFLUENCE THE EVENTUAL DECISION BY PROPONENTS OF HIGHER PRICE LEVELS, MOSTLY PETROLEUM COMPANIES, AND OPPONENTS, UNIONS, ETC., HAS ASSUMED NEW PROPORTIONS. SINCE THIS PROCESS OF SOME INTEREST (REF B), THIS MESSAGE DEALS WITH THE ATMOSPHERICS OF PRE-PRICE CHANGE MANEUVERING.

2. PROPONENTS: PRESS REPORTS ON MARCH 3 REFERENCE TOTAL ITALIANA (SUBSIDIARY OF FRENCH CIE. FRANCAISE DES PETROLES-CFP, WHICH IMPORTS APPROXIMATELY 7 PERCENT OF ITALY'S CRUDE) DECLARATION THAT THE COMPANY WAS SUSPENDING NEW CRUDE IMPORTS UNTIL MAXIMUM PRICE LEVELS WERE RAISED TO REFLECT NOT ONLY LIRA DEVALUATION BUT INCREASE IN OPERATING COSTS AS WELL. INDEPENDENT ITALIAN OIL OPERATOR MONTI REPORTEDLY WAS PREVENTED FROM SHUTTING DOWN THE GAETA REFINERY ONLY BY LIMITED OFFICIAL USE

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PAGE 02 ROME 03527 031825Z

A LAST MINUTE INFUSION OF CRUDE BY CO-OWNER STATE CONTROLLED

OIL COMPANY AGIP. IN FEBRUARY, MAJOR OIL COMPAINES REPRESENTED BY INDUSTRY ASSOCIATION UNIONE PETROLIFERA FORMALLY WARNED GOI TO COMPLY WITH REGULATIONS GOVERNING CALCULATION OF PRICE CEILINGS OR COMPAINES WOULD TAKE APPROPRIATE LEGAL ACTION TO OBTAIN REDRESS THROUGH THE COURTS. SOME COMPAINES HAVE WARNED THAT IMPORTS WOULD BE REDUCTED BY WORKING MANDATORY STRATEGIC STOCKS.

3. OPPONENTS: LEFT-WING PRESS, LED AS USUAL BY ROME DAILY IL MESSAGGERO, HAS CRITICIZED FURTHER PRICE INCREASES AS UNJUSTIFIED, AT LEAST UNTIL LIRA-DOLLAR RATE STABILIZES, AND ALLEGES PROBLEMS WITH COMPANY-SUBMITTED DATA...WITHOUT MENTIONING DETAILS. UNION OPPONENTS, LED BY REPRESENTATIVES OF SERVICE STATION WORKERS AND TRUCK DRIVERS, HAVE BEEN RATHER MORE QUIET THAN USUAL. RAPID, MARKED AND OBVIOUSLY IRREVERSIBLE NATURE OF LIRA DEVALUATION HAS GIVEN PRO FORMA RING TO THE USUAL POLEMICS.

4. GOI, AS USUAL, IS IN THE MIDDLE. RECENTLY, MINISTRY OF INDUSTRY ENERGY OFFICE DIRECTOR AMMASSARI PUBLICLY ADMONISHED COMPANIES TO MAINTAIN CRUDE DELIVERIES. BEHIND SCENES, EVALUATION OF DATA SUBMITTED BY COMPAINIES HAS BEEN CARRIED OUT FOR PRESENTATION TO CIP. FIXING NEW PRICES HAS BEEN HANDICAPPED BY (A) LACK OF OFFICIAL LIRA VALUE, RE-ESTABLISHED ONLY MARCH 1 WITH RE-ENTRY OF BANK OF ITALY INTO EXCHANGE MARKETS, AND (B) DOMESTIC POLITICAL SITUATION DURING MUCH OF JANUARY AND FEBRUARY.

5. COMMENT: WE SEE LITTLE CONCRETE SHORT-RUN EFFECT FROM COMPANY ACTIONS EXCEPT TO INCREASE PRESSURE ON GOI TO RESPOND TO COMPANY PRICE REQUESTS. AS FOR TOTAL ANNOUNCEMENT (WHICH RECALLS "LITTLE BOY CRYING WOLF" FABLE SINCE TOTAL HAS LONG RECORD OF ISSUING SIMILAR ULTIMATUMS), COMPANY STATES THAT IT WILL CONTINUE TO RECEIVE IMPORTS ALREADY ORDERED AND TO WORK STOCKS ON HAND. THIS WOULD NORMALLY ASSURE 40-80 DAYS OPERATIONS. MORE IMPORTANTLY, AND ASSUMING THAT SOME PRICE ACTION IS FORTHCOMING WITHIN REASONABLY BRIEF PERIOD, RE-ORDERING COULD COMMENCE AND THERE NEED BE NO INTERRUPTION IN TOTAL'S OPERATIONS. CRUSH WILL COME WITH ANNOUNCEMENT OF NEW MAXIMUM PRICE LEVELS, NOW EXPECTED FOR LIMITED OFFICIAL USE

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PAGE 03 ROME 03527 031825Z

WEEK OF MARCH 8. SINCE PRICE LEVELS ARE UNLIKELY TO MEET OIL COMPAINES' MAXIMUM DEMANDS, AND MAY NOT EVEN BE ADJUSTED SUFFICIENTLY TO COVER TOTAL LIRA DEVALUATION, COMPAINES WILL BE FACED WITH PUT-UP OR SHUT-UP SITUATION. THREAT TO REDUCE IMPORTS BY WORKING STRATEGIC STOCKS, REQUIRED BY EC AND ITALIAN LAW, COULD PROVIDE OPPORTUNITY FOR COMPAN-GOI CONFRONTATION, BUT IF PAST PERFORMANCE IS REPEATED, COMPAINES ARE UNLIKELY TO SUFFER IN SILENCE, BUT UNLIEKLY

TO CHALLENGE GOI DIRECTLY.VOLPE

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